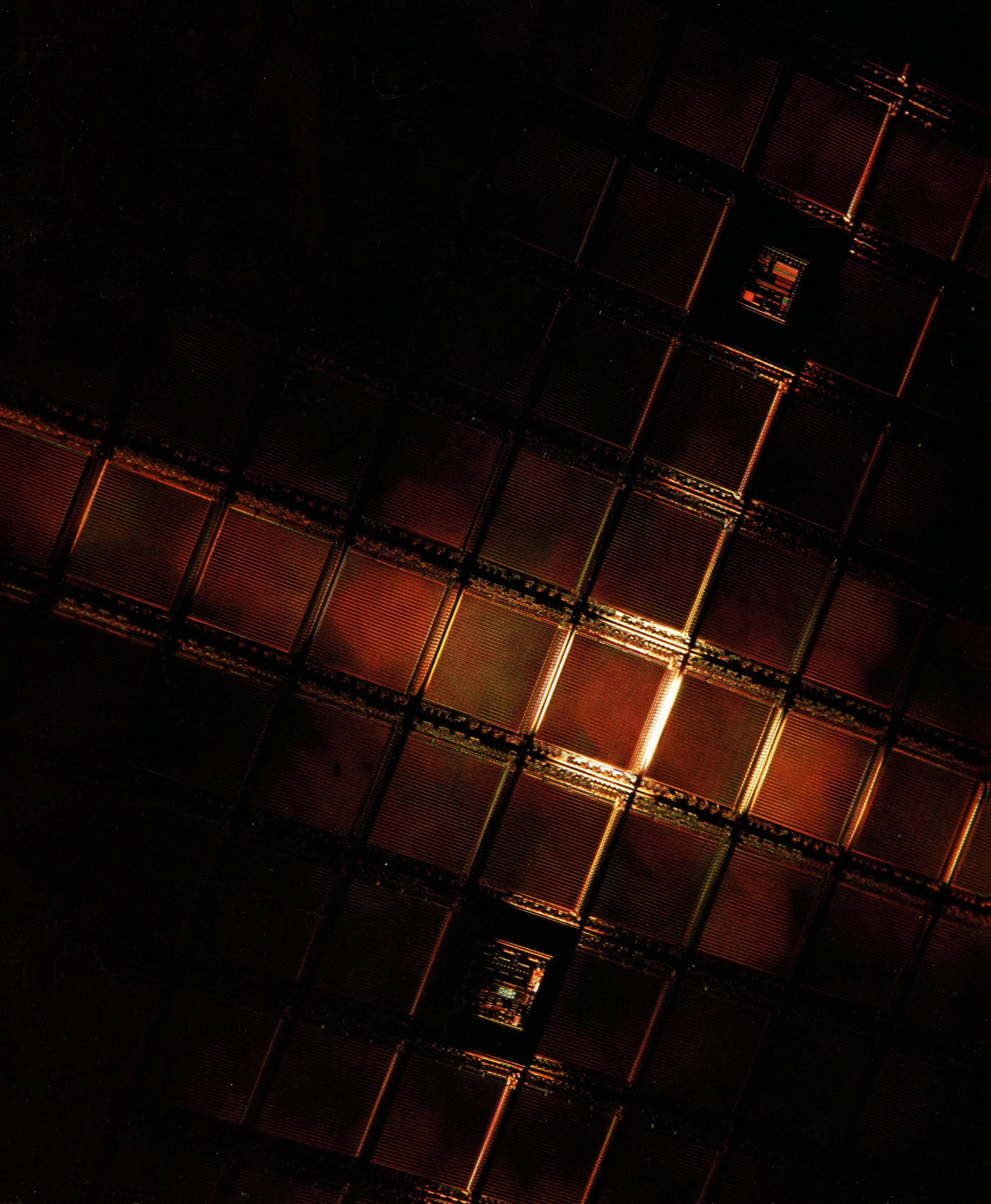
Commodore International Limited

Annual Report 1979



The Company

Commodore International manufactures computer systems, consumer electronics products, semiconductors and office equipment. Manufacturing facilities are located in North America and the Far East. Marketing is worldwide. Research expenditures, constituting more than 5% of sales, are directed primarily to the application of solid state electronics technology in the development of end-user computer and consumer electronics products.

About the Cover: Pictured on the cover is a wafer of semiconductor chips, a highly sophisticated basic component of all Commodore electronics products. The chip, which contains vital large scale integrated (LSI) circuitry, has the capacity to perform more than 20,000 functions. Commodore's vertical integration capabilities enables the company to produce virtually all of its semiconductor chip requirements, be it microprocessors, RAMS, ROMS, general logic circuits or timekeeping circuits, at its own manufacturing facilities.

Commodore commits extensive research and development funds toward further improving solid state technology, which ultimately results in increased product efficiency.

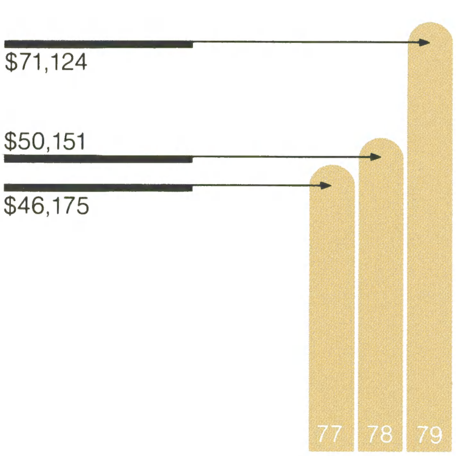
Financial Highlights

Year Ended June 30th	1979	1978	1977	% Change 1979 vs. 1978
Net Sales	$71,124,000	$50,151,000	$46,175,000	+41.8%
Gross Profit Margin	32.5%	30.5%	24.0%	—
Net Profit Margin (1)	8.5%	6.8%	3.3%	—
Net Income (1)	$ 6,020,000	$ 3,390,000	$ 1,524,000	+77.6%
Shareholders' Equity	$20,750,000	$12,256,000	$ 8,175,000	+69.3%
Earnings Per Share (1)(2)	$ 2.79	$ 1.61	$ 0.75	+73.3%
Average Shares Outstanding (2)	2,160,000	2,105,000	2,030,000	—

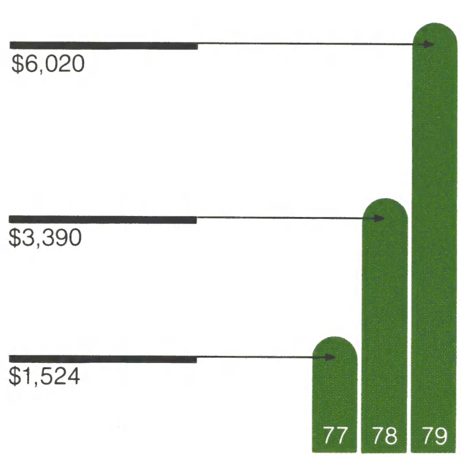
Quarterly Earnings Per Share (1)(2)	1978-79	1977-78	1976-77
September 30	$0.55	$0.34	$0.19
December 31	$0.64	$0.38	$0.37
March 31	$0.67	$0.40	$0.13
June 30	$0.93	$0.49	$0.06

(1) Does not include extraordinary credit of $515,000 ($0.24 per share) in 1979 and $650,000 ($0.31 per share) in 1978.
(2) All per share figures adjusted for 3-for-2 stock split issued on September 7, 1979 to shareholders of record on August 30, 1979.

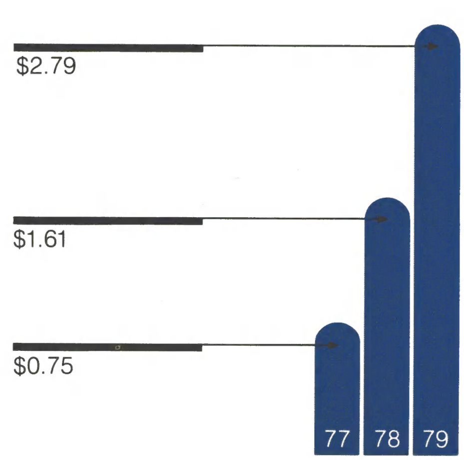
Net Sales
(In Thousands)



Net Income
Before Extraordinary Items
(In Thousands)



Earnings Per Share
Before Extraordinary Items
(In Dollars)



Management Report to Shareholders

Fiscal year 1979 was one of great accomplishment for your company as evidenced by the summary comparison of operating results on the preceding page. Sales increased 42% to a record $71 million; net income before extraordinary item rose 78% to $6.0 million (also a record) while earnings per share before extraordinary item rose to an all-time high of $2.79 per share from the $1.61 per share reported in fiscal 1978 (All per share figures have been adjusted for a 3-for-2 stock split issued on September 7, 1979 to shareholders of record on August 30, 1979).

In longer-term perspective, ten years ago, in fiscal 1969, Commodore reported sales of $7.5 million and net income of $467,000, or $.41 per share. Sales have thus increased almost ten-fold over the past decade and net income and earnings per share have grown at a somewhat greater rate.

Commodore's business divides into four primary segments, operations of which are reviewed in detail in subsequent sections of this report. Our summary comments are as follows:

Consumer Products

As recently as fiscal 1977, consumer products (calculators and watches) accounted for over 70% of Commodore's revenues. For fiscal 1979, consumer products accounted for only 22% of revenues. This shift in product mix is the result of a phased restructuring of Commodore's business away from consumer products which was initiated in 1977 because these markets had become temporarily saturated. Present strategy is to focus primarily on foreign markets.

Computer Systems

The Computer Systems Division emerged in fiscal 1979 as the largest segment of Commodore's business, contributing 49% of total sales versus 24% the preceding year. The key ingredient to this growth has been increased market penetration stemming from the pioneering development of the PET® computer, a self-contained personal computer retailing for less than $1,000.

In fiscal 1980 a further increase in market share in personal computers and low-cost small business systems is projected. Several new products for that market are programmed for the near future. This, along with the continuing rapid growth of the personal computer and small business systems markets, leads us to believe that sales of the systems group will show substantial growth in fiscal 1980.

Electronic Components

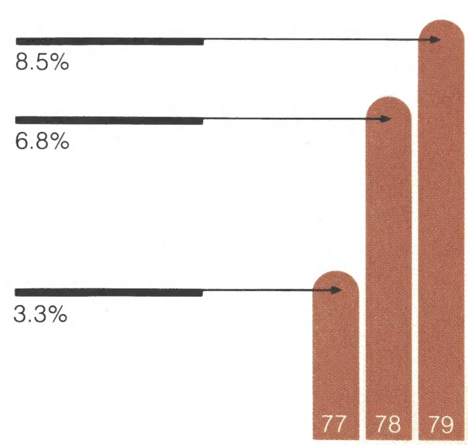
Consistent with a strategy of vertical integration to fulfill the internal demands of Commodore, sales of components (semiconductor devices, CMOS watch modules and liquid crystal displays) to outside customers were virtually flat in 1979 as larger quantities of components were committed to our own manufacturing needs. Increased capacity and an expanded line of semiconductor devices was entirely absorbed by our rapidly growing Computer Systems Division.

In fiscal 1980, we anticipate that internal requirements for semiconductor components will more than double. Nevertheless, sales to outside customers are expected to increase substantially as capacity is again expanded and new products are brought to market.

In February, 1979, Commodore acquired Micro Display Systems, Inc. of Dallas, Texas, now part of the Electronic Components Division. MDSI manufactures liquid crystal displays (LCD's), watches and watch modules and will introduce an electronic programmable thermostat in the fall of 1979, thus establishing Commodore in a potentially important growth market of the 1980s—energy conservation electronics.

Performance Measurements
Fiscal Years Ended June 30th

Net Profit Margin
Before Extraordinary Items
(Percent)



Office Equipment
Shipments of our popular line of budget-priced office furniture for the Canadian market grew substantially in 1979. During fiscal year 1980 a capital expansion program will increase capacity and reduce costs through automation of manufacturing. We expect sales of the Office Equipment Division to show continuing growth during fiscal year 1980 as the expansion program is implemented and further market penetration is achieved.

Given the outlook for each operating group, we anticipate sales of Commodore International to continue their recent strong growth pattern in fiscal 1980. Note that sales for the final quarter of fiscal 1979 were at an annual rate in excess of $100 million.

In every key aspect — management structure, manufacturing depth, financial strength and marketing access — Commodore is a materially different company today than it was only two years ago. Founded initially as a marketer of business machines and electronic products and subsequently having evolved as an assembler of these products, Commodore today is a broadly based, fully integrated manufacturer of advanced computer systems and electronic products.

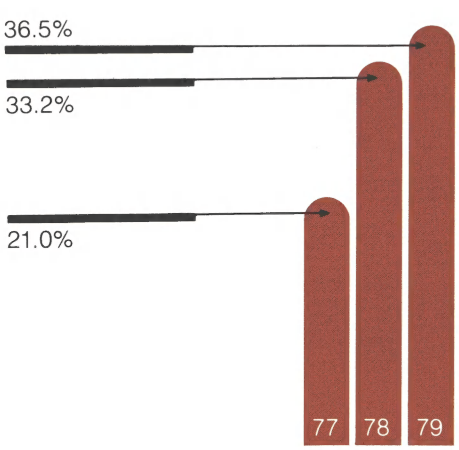
On July 20, 1979, Commodore's Board of Directors announced a 3-for-2 stock split issued September 7, 1979 to shareholders of record on August 30, 1979.

We take this opportunity to pay tribute to our customers, suppliers and employees for the continuing support on behalf of Commodore, and to our shareholders for their loyalty. To all, a sincere "thank you".

Sincerely,

Jack Tramiel
President

Return on Average Shareholder's Equity
(Percent)



Commodore's net profit margins have increased in recent years despite a rise in percentage of sales going to research and development from 3% in fiscal 1977 to 5.1% in fiscal 1979. Return on average shareholders' equity, ROE (i.e. that measure of what a corporation is able to earn on the underlying assets owned by its shareholders) has also been rising and at 36.5% for fiscal 1979 was more than double the average ROE of all publicly owned corporations.

To fully understand Commodore today, one must analyze its historical derivation and recognize the change in composition of its business which has occurred in the last three years.

Commodore was founded in 1958 as a *marketing* organization to sell typewriters and various electro-mechanical business machines manufactured by others. Marketing remains today a fundamental strength of the company, but new dimensions have been added. In 1970, it began to *assemble* calculators for sale under the Commodore label from components supplied by outside vendors. Since 1977, the company has become a fully integrated manufacturer of consumer products and computer systems through internal generation of products and the acquisition of primary manufacturing capability in semiconductors and microprocessors. Today, Commodore manufactures products developed out of *its own* extensive research and marketed through *its own* world-wide sales and service organization.

The change in composition of Commodore's business is documented in the following table showing percentage of sales by principal product categories for the three years 1977 through 1979:

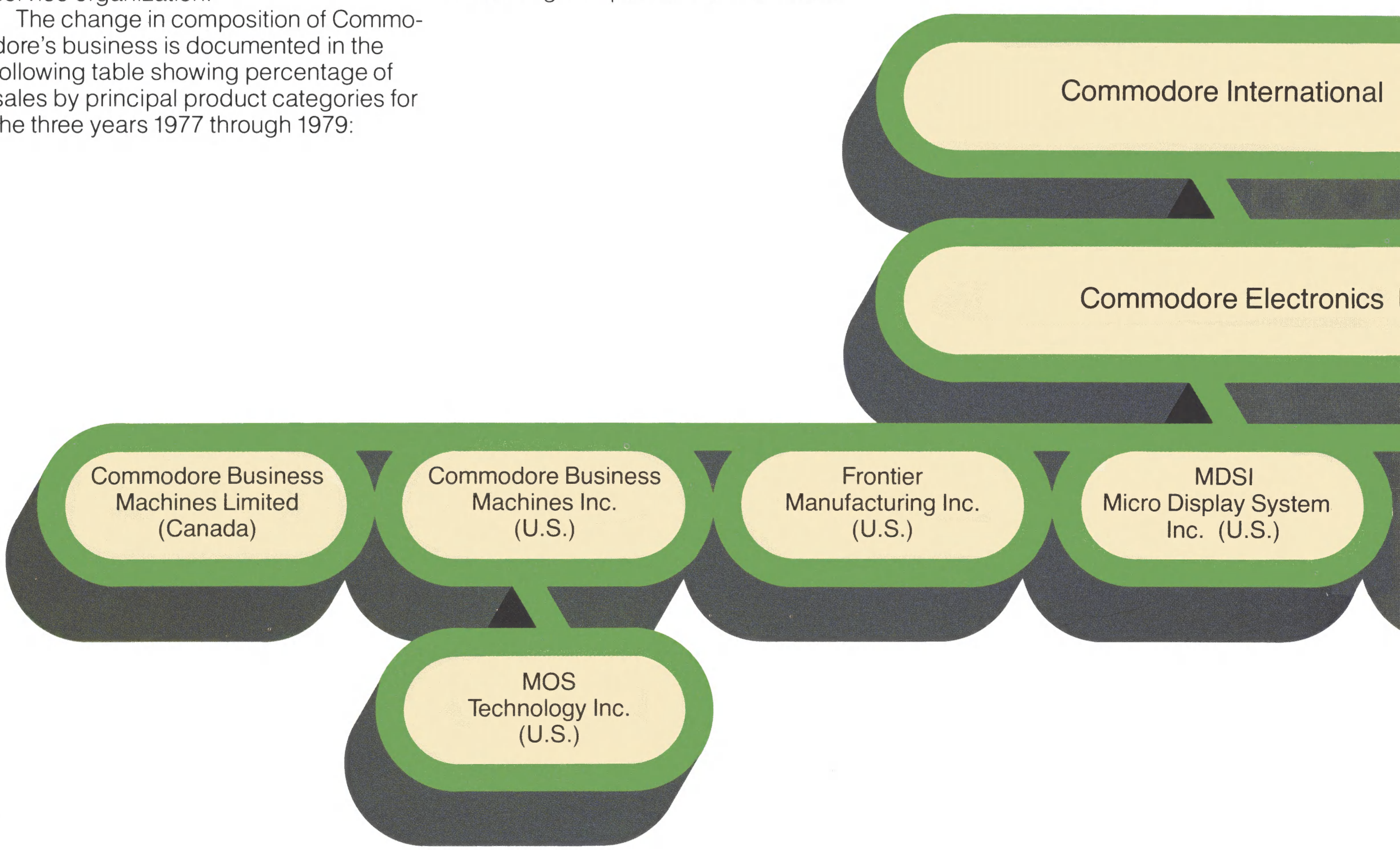
	Percent of Sales		
Year Ended June 30th	1979	1978	1977
Consumer Products	22%	39%	71%
Computer Systems	49	24	—
Electronic Components	14	19	17
Office Equipment	15	18	12
	100%	100%	100%

Consumer Products (22% of Sales)
Commodore's consumer products business consists of the manufacture and sale of electronic calculators and watches. In 1971, Commodore became the first company to introduce a mass-marketed, mass-produced electronic calculator. Sales are world-wide, with particular concentration on foreign markets. In 1976, Commodore entered the watch business with the introduction of a line of light emitting diode (LED) watches.

As the market for electronic calculators became temporarily saturated in 1976, manufacturing was integrated in order to remain a low-cost producer in the face of increasing competition from semiconductor manufacturers. MOS Technology, a Valley Forge, Pennsylvania, based manufacturer of MOS chips used in consumer products, was acquired. In 1977 Frontier Manufacturing, a manufacturer of CMOS chips also for LCD products, was acquired. Now part of the Electronic Components Division, Frontier is an important producer of integrated circuits.

In fiscal 1980, the Consumer Products Division is scheduled to begin manufacturing and marketing an electronic thermostat—a programmable, digital device expected to position Commodore in a promising new growth market of the 1980s—energy conservation electronics.

As Commodore enters the 1980s, Consumer Products will continue to be an important part of its business, albeit proportionately less so as the company increases its commitment to the rapidly growing, high return personal computer and small business systems market.



Computer Systems (49% of Sales)
Following the acquisition of MOS Technology in 1976, the Computer Systems Division was established in order to apply MOS Technology's capability in semiconductor devices, microprocessors and memory devices to the manufacture of personal computers and small business systems. The initial product was a self-contained, stand-alone computer introduced to retail at the then unheard-of price of $595. In fiscal 1979, the Computer Systems Division accounted for 49% of Commodore's sales and 65% of income from operations.

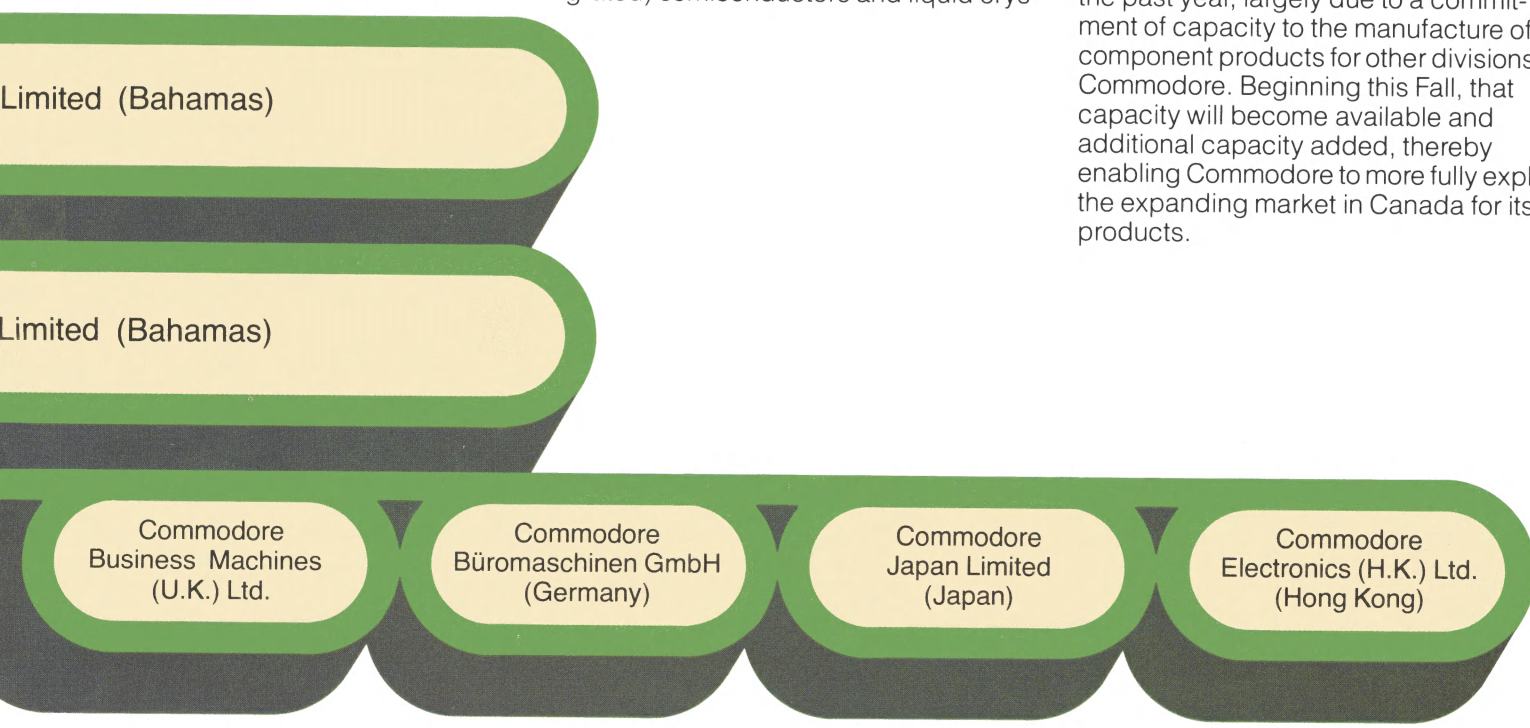
As contrasted to the Consumer Products Division where integration backward into semiconductor components was achieved to remain competitive from a cost and design viewpoint, Commodore's strategy in entering the computer business involved a strategy of forward integration into end markets through application of component technology to the design and manufacture of end-user products.

During fiscal 1980, Commodore will broaden its position in personal computers for use by (a) professionals for office and home environments, (b) the hobbyist market and (c) the education market. It has also recently introduced a line of small business systems, including various peripherals, for commercial markets. Future new product developments will continue to draw upon Commodore's recognized capability for innovative product design, its low cost, integrated manufacturing base, and an established world-wide distribution/service organization.

Electronic Components (14% of Sales)
Internal demand for semiconductor and other components grew substantially during fiscal 1979, reflecting primarily expanded needs of the Computer Systems Division. Component products include the 6502 microprocessor, a line of MOS/LSI (metal oxide silicon/large scale integrated) semiconductors and liquid crystal displays (LCD), Random Access Memory chips (RAMS) and Read Only Memory chips (ROMS). Manufacturing capacity and development capability of liquid crystal displays and electronic watch modules was enhanced during fiscal 1979 by the acquisition of Micro Display Systems, Inc. of Dallas, Texas. Other component manufacturing plants are located at Newport Beach, California, Valley Forge, Pennsylvania and Hong Kong.

Although internal requirements for components primarily from the Computer Systems Division will increase substantially in fiscal 1980, expanded capacity, more efficient plant utilization, and a broadened product line should permit the Electronic Components Division to materially expand sales to outside customers.

Office Equipment (15% of Sales)
Commodore manufactures the largest selling line of budget-priced steel office furniture in Canada and other metal products at a plant in Toronto. This business has been capacity-limited during the past year, largely due to a commitment of capacity to the manufacture of component products for other divisions of Commodore. Beginning this Fall, that capacity will become available and additional capacity added, thereby enabling Commodore to more fully exploit the expanding market in Canada for its products.



Research and Development

Since 1976, Commodore has substantially accelerated its commitment to research and development as evidenced by the trend of expenditure on R&D, all of which have been expensed in the year in which incurred:

Year Ended June 30th	1979	1978	1977	1976
	——millions——			
Research and Development	$3.6	$2.1	$1.4	$0.8
% of Sales	5.1%	4.2%	3.0%	1.4%

For fiscal 1980, expenditures on research and development are budgeted to increase another 50% to more than $5 million.

The primary thrust of Commodore's R&D program is directed to the application of advanced solid-state technology in the development of primary components for the Computer Systems and Consumer Products Divisions. It is the development of new circuitry, be it microprocessors, RAMS, ROMS, general logic circuits or timekeeping circuits, that has stimulated the general proliferation of products applying digital technology—ranging from products of convenience such as timekeeping or home appliances to products of strategic and scientific importance such as weapons systems or space satellites. Commodore's successful entry into the computer industry evolved from its development of the 6502 "Computer-On-A-Chip" microprocessor which is the control center of the PET® computer system and of the popular KIM-1 microcomputer board.

Recent development of additional advanced CMOS microprocessors and other semiconductor components is expected to lead to the introduction in fiscal 1980 of new products in the PET® series, including peripherals (i.e. printers, second-cassette drives, floppy disk drives, communications modems, etc.) and software. These will employ advanced techniques of micro-miniaturization in product design and manufacture.

During fiscal 1980, Commodore will be developing enhanced ROM (read only memory) and RAM (random access memory) products and work is moving forward on a large area LCD (liquid crystal display) to be employed in computers and selected consumer products.

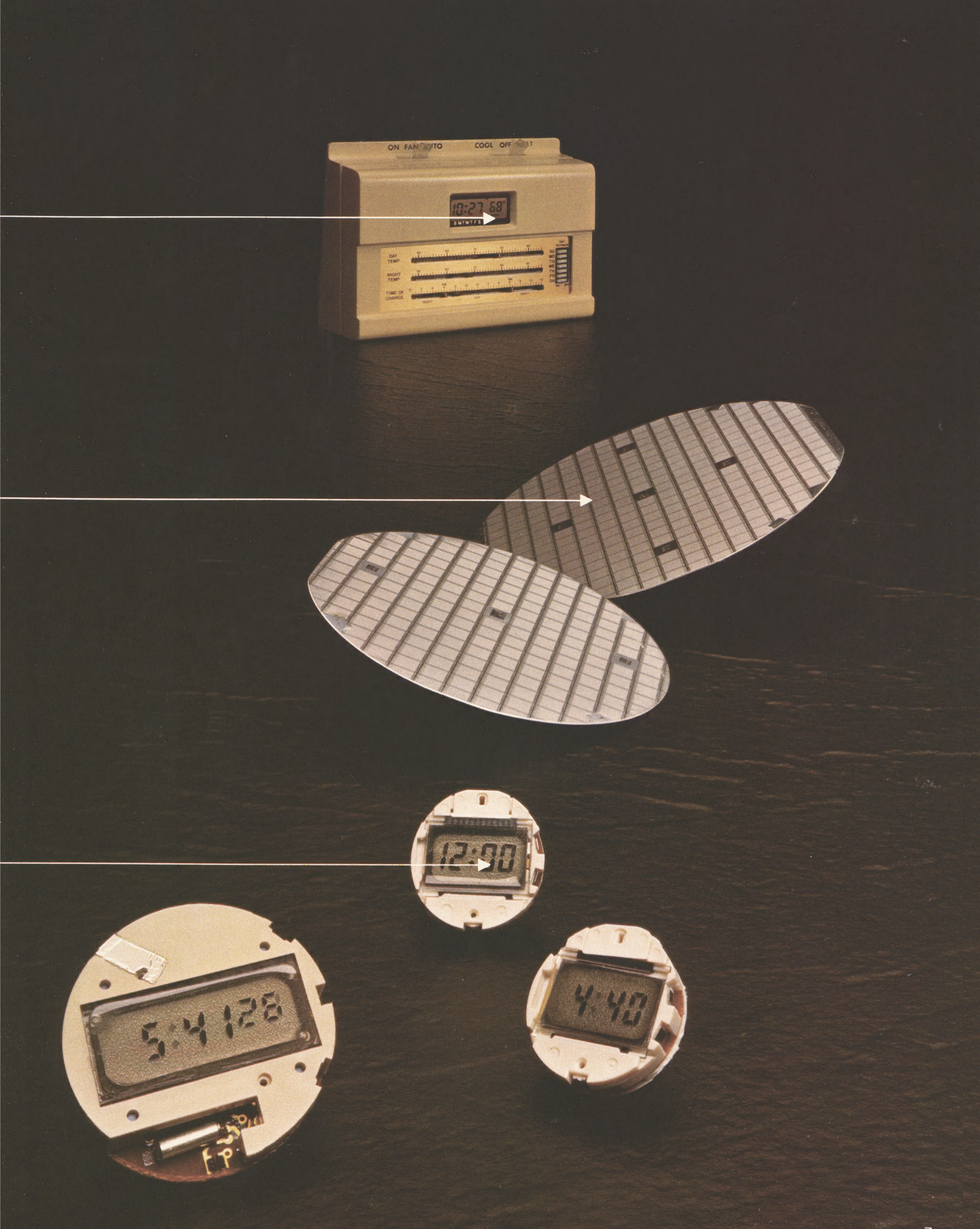
The electronic programmable thermostat, scheduled for introduction during the new fiscal year, is expected to be only the first in a series of products involving the application of electronics to energy conservation.

Functionally, research and development at Commodore is decentralized within each of the operating divisions, assuring thereby a close and constant interface of R&D to manufacturing, process engineering and marketing.

Commodore's electronic programmable digital thermostat, scheduled to be introduced during fiscal 1980, can be an important energy saving device for the homeowner.

A highly sophisticated and technological process converts these wafers into semiconductor chips. Chips contain integrated circuitry vital to the operation of virtually all of Commodore's semiconductor products.

Liquid crystal display (LCD) modules, a component product of Commodore watches and calculators, are manufactured by the Electronic Components Division. Consistent with Commodore's strategy of vertical integration, an increased amount of LCD manufacturing is going for internal product needs.


DAY TEMP
NIGHT TEMP
TIME OF CHANGE

Manufacturing

Our Santa Clara manufacturing facility was opened during fiscal 1979 and now produces a full line of products of the Computer Systems Division, including computer peripherals such as printers and floppy discs. This plant consolidates the manufacture of computer systems from multiple locations in the San Francisco Bay area. Significant gains in capacity, efficiency and quality control have been derived from concentrating activities at one location and from application of the latest available technology in assembly and materials handling.

The plant employs solar energy to supply 90% of heating, hot water and air conditioning requirements. It is one of the first such facilities constructed in the United States.

Plant expansion and addition of processing and quality control equipment to accommodate the manufacture and testing of increasingly sophisticated integrated circuits and other components has been completed or is underway at Newport Beach, Valley Forge, Hong Kong, and Dallas. Fuller utilization of capacity at Newport Beach has further contributed to its increased operating efficiency. At Valley Forge, the start-up of a four inch wafer line has favorably impacted output.

The Dallas plant, obtained in the acquisition of Micro Display Systems, Inc., is concentrating on LCD (liquid crystal display) manufacture and will undertake initia production of the electronic programmable thermostat scheduled for fiscal 1980.

Expenditure on plant and equipment totalled $4.5 million in fiscal 1979 and is budgeted at $5.0 million for the fiscal year 1980.

Commodore operates manufacturing plants at the following locations:

Santa Clara, California/60,000 sq. ft.
Systems manufacturing for PET® computers and peripherals

Newport Beach, California/30,000 sq. ft.
Design and manufacture of CMOS integrated circuits

Valley Forge, Pennsylvania/60,000 sq. ft.
Design and manufacture of MOS integrated circuits, including RAM, ROM and microcircuits

Dallas, Texas/60,000 sq. ft.
Design and manufacture of liquid crystal displays (LCDs)

Toronto, Canada/207,000 sq. ft.
Manufacture of office equipment and other steel products

Hong Kong/39,000 sq. ft.
Manufacture of consumer electronic products

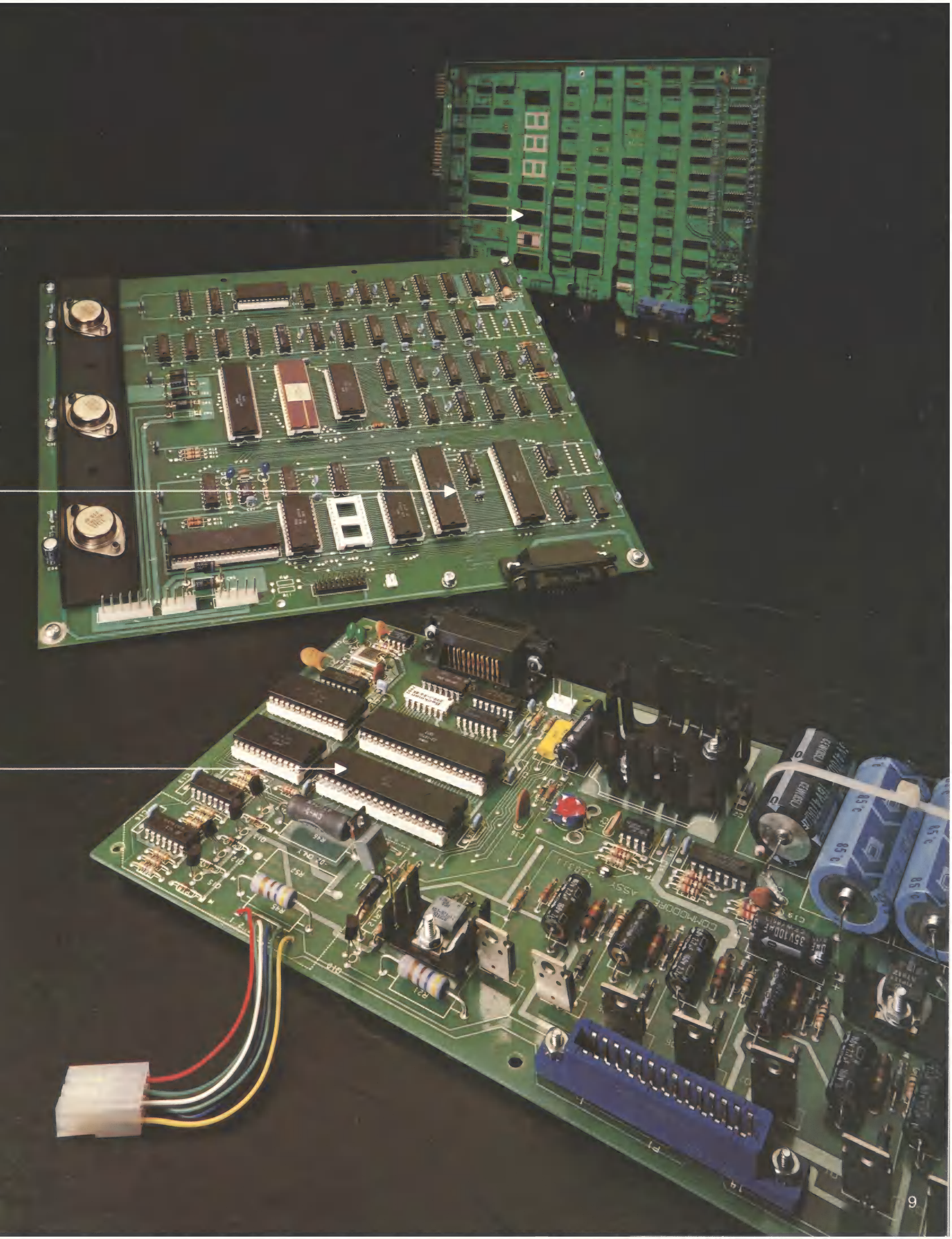
Osaka, Japan
Service of computer systems

Slough, England
Service of computer systems and consumer products

The Dynamic, or Main Logic Board, provides computational, memory, control, and diagnostic functions in the 16K and 32K PET computer systems.

The "2040 Floppy Disk" Board provides greater program control through added memory storage capacity. The principal component of the Board, the floppy disk, is peripheral equipment now being offered to PET users.

Shown here is the hard copy printer board for the tractor printer being offered to PET users as peripheral equipment for maintaining permanent records.



Products/New Products

Commodore's substantial investment in fundamental technology during 1978 and 1979 will be manifest in fiscal 1980 in a uniquely prolific schedule of new product introductions. These are reviewed below. Present product lines are profiled on the page opposite.

The calculator line will be reconstituted during fiscal 1980 with the introduction of a family of ten-to-twelve LCD/CMOS one-chip microcomputer based products ranging from credit-card-size hand calculators to high end, programmable units employing alphanumeric displays and keyboards and offering various peripheral options.

The electronic components division will introduce industry standard 64K ROMS and 16K RAMS. CMOS one-chip microcomputers will be converted to standard P and N-channel processes to open up industrial and commercial markets such as high-end electronic games, automotive and instrument controls and specialized controllers for computer systems. In custom products, emphasis will be on the design and development of proprietary improvements in cost and performance of components for the Computer Systems Division. The first of these is a low-cost color controller to be introduced in fiscal 1980 with the PET® system and available for sale to outside customers by the Electronic Components Division.

The Computer Systems Division will be adding products during fiscal 1980 which enhance the present line and will be introducing a new product family. Present 8K, 16K and 32K memory models with 40 column, 9-inch black and white monitors will be upgraded to 80 column, 12-inch black and white monitors with up to 64K memory supported by expanded business and accounting software.

New peripheral products will include low-cost single and dual floppy disks, industry standard floppy disks with systems capacity up to two megabytes, hard disk systems with capacity up to 30 megabytes, and a family of low-cost intelligent modems which will interface Commodore computers with one another and with other vendor systems. Also scheduled for introduction are (a) a low-cost thermal printer, (b) a letter quality printer and (c) extensions of current printer capability as regards speed and paper handling capacity.

Other computer *enhancements* under development during fiscal 1980 will expand the capability of PET® systems to a point where they will be able to talk, listen and draw. Development of a *next generation* computer system is scheduled for completion during 1979-80 and introduction by the end of the fiscal year.

Commodore's PET® "2001 Series" computer system. A dual drive floppy disk and a tractor printer, peripheral equipment available with the PET, offer the user added functional capacity.

The KIM-1 board, developed at MOS Technology, is used primarily by hobbyists, educators and students as a method to learn programming techniques.

Commodore offers a variety of personal calculators, from the basic to the complex.

The semiconductor chip is the basic component of all of Commodore's products, such as the liquid crystal display (LCD) watches shown here.

Each semiconductor "chip" contains integrated circuitry which performs as many as 20,000 functions and includes supporting electronic elements such as transistors, resistors, diodes and capacitors.


commodore
CBM
dual drive
floppy disk
PET
2001 Series
professional
computer
commodore
CBM
tractor
printer
KIM-1
commodore
commodore
commodore

Marketing

Commodore International is precisely what its name implies, an international company with a sales and service organization covering all major markets for computer systems and electronic consumer products. Sales by principal geographic markets compare as follows for the fiscal years 1978 and 1979:

	1979		1978	
	$ mil.	% of Sales	$ mil.	% of Sales
North America	$39.0	55%	$34.6	69%
Europe	21.4	30	12.7	25
Asia	10.7	15	2.9	6
Total Sales	$71.1	100%	$50.2	100%

As is evident from the figures, greater geographic diversification of the company's sales was achieved in fiscal 1979. This was a consequence of a particularly sharp increase in sales to European markets and extraordinary growth in shipments to Asia. In both areas, increased market penetration of the PET® computer system was the principal reason for the gain in volume. Sales of PET® in the United States and Canada also rose sharply.

Commodore markets worldwide through its own direct sales organization in eight countries and through distributors in over twenty five countries. Internally the company employs over 500 people in sales and service.

Sales are made direct to dealers in the United States, Canada, England, Germany, Switzerland, Hong Kong and Japan. Elsewhere in the world, sales are made by our international sales subsidiary, Commodore Electronics, Ltd., Nassau, Bahamas, to distributors, which in turn sell to local dealers. The typical dealer in Commodore products is a retail store selling personal computers, business machines and consumer electronic products such as the Commodore line of hand-held calculators and watches.

Commodore owns several "Mr. Calculator" retail stores located in the United States. These stores, specializing in the sale of Commodore computer systems and consumer electronic products, serve as a source of market research on consumer attitudes and as a pilot project for evaluating the retail computer and consumer electronics business.

Distributors ●

Argentina

Australia

Austria

Belgium

Colombia

Denmark

Finland

France

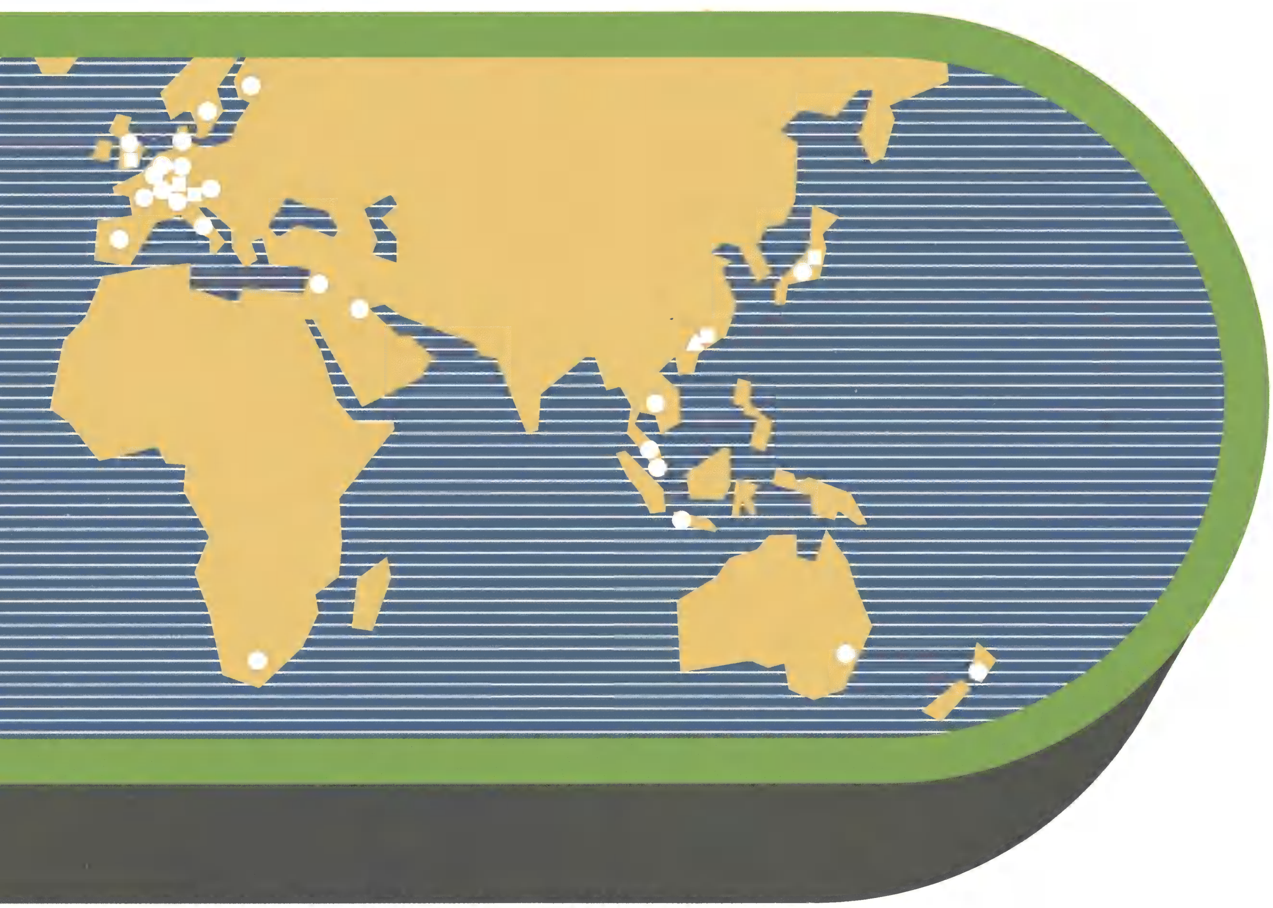
Indonesia
Israel
Italy
Japan
Kuwait
Luxembourg
Malaysia
Netherlands
New Zealand
Singapore
South Africa
Spain
Sweden
Switzerland
Thailand
United Kingdom
United States
Venezuela
W. Germany

Sales ■

Bahamas
Frankfurt
Hong Kong
London
Tokyo
Toronto
Santa Clara
Switzerland

Manufacturing ▲

Dallas
Hong Kong
Newport Beach
Santa Clara
Toronto
Valley Forge



Financial Statements

Contents	Pages

Management Discussion and Analysis of the Summary of Earnings
for the years ended June 30, 1979, 1978 and 1977

Changes in Character of Business

During 1979, the company continued to follow the strategy of achieving manufacturing economies through a vertically integrated, inter-divisional support network adopted several years ago.

Sales

The company experienced a 42% sales volume increase in 1979 over 1978 due to further market penetration of existing product lines; introduction of several new products; expansion of the customer base through further development of its distributor network and the acquisition of Micro Display Systems, Inc. (MDSI). A modest volume increase was experienced in 1978 over 1977.

Cost of Sales/Gross Margin

The growth of gross margin as a percentage of sales (1979–32.5%; 1978–30.5%; 1977–24.0%) is a result of a consolidation of manufacturing facilities; introduction of state of the art assembly and production equipment; discontinuance of lesser yielding product lines and certain cost reductions experienced through vertical integration.

Operating Expenses

Operating expenses as a percentage of sales have remained relatively unchanged from 1977 through 1979. Increased expenditures reflect higher selling, administrative and labor costs required to support higher sales volumes and an expansion of the company research and development program for new high technology products.

Interest Expense

Interest expense increased $974,000 or 87% in 1979 over 1978, as a result of increased borrowing required to support the high sales volume; the acquisition of MDSI and a capital expansion program offset by reduced borrowing rates.

Provision for Income Taxes

Income taxes were provided at effective rates of 25% in 1979 and 35% in 1978. See Note 3 to "Notes to Consolidated Financial Statements" for an explanation of the difference between the U.S. statutory rate and the rates noted above.

Consolidated Fourth Quarter Results

Sales during the Fourth Quarter of 1979 were $26,569,000 (1978—$11,529,000). Income after taxes but before a tax carryforward benefit was $2,083,000 (1978—$1,068,000). The significant increase in Fourth Quarter operations is attributable to improved levels of production, pursuant to the relocation and consolidation of certain manufacturing facilities during the latter part of the Third Quarter of fiscal 1979.

Consolidated Summary of Operations

(Not Covered by Auditors' Report)	Year Ended June 30 1979	1978	1977	1976	1975
Net Sales	$71,124,000	$50,151,000	$46,175,000	$55,934,000	$55,877,000
Gross Profit	23,088,000	15,297,000	11,074,000	11,764,000	5,006,000
Operating Expenses	12,976,000	8,964,000	7,739,000	7,670,000	8,851,000
Interest Expense, net	2,092,000	1,118,000	1,093,000	698,000	1,218,000
	15,068,000	10,082,000	8,832,000	8,368,000	10,069,000
Income (Loss) before income taxes and extraordinary item	8,020,000	5,215,000	2,242,000	3,396,000	(5,063,000)
Provision (Credit) for Income Taxes	2,000,000	1,825,000	718,000	1,724,000	(793,000)
Income (Loss) before extraordinary item*	6,020,000	3,390,000	1,524,000	1,722,000	(3,857,000)
Extraordinary Item	515,000	650,000	—	1,189,000	89,000
Net Income (Loss)	$ 6,535,000	$ 4,040,000	$ 1,524,000	$ 2,911,000	$(3,768,000)
Earnings (Loss) per share					
Income (loss) before extraordinary item	$ 4.18	$ 2.42	$ 1.13	$ 1.34	$ (3.04)
Net income (loss)	$ 4.54	$ 2.88	$ 1.13	$ 2.26	$ (2.96)
Supplemental Earnings (Loss) per share reflecting subsequent 3-for-2 stock split					
Income (loss) before extraordinary item	$ 2.79	$ 1.61	$ .75	$ .89	$ (2.03)
Net income (loss)	$ 3.03	$ 1.92	$ .75	$ 1.51	$ (1.97)

* In 1976 and 1975, includes minority interest in loss of CESL of $50,000 and $413,000, respectively.

Consolidated Statements of Operations

	Year Ended June 30, 1979	1978
Net Sales	$71,124,000	$50,151,000
Cost of Sales	48,036,000	34,854,000
Gross Profit	23,088,000	15,297,000
Operating Expenses:		
Selling	4,518,000	3,162,000
General and administrative	4,901,000	3,724,000
Research and development (Note 1)	3,557,000	2,078,000
	12,976,000	8,964,000
Income from operations	10,112,000	6,333,000
Interest Expense, net	2,092,000	1,118,000
Income before income taxes and extraordinary item	8,020,000	5,215,000
Provision for Income Taxes (Note 3):		
Current		
Federal	837,000	604,000
State	125,000	183,000
Foreign	1,038,000	668,000
Deferred foreign income taxes	—	370,000
	2,000,000	1,825,000
Income before extraordinary item	6,020,000	3,390,000
Extraordinary Item—Reduction of income taxes from carryforward of net operating losses (Note 3)	515,000	650,000
Net income	$ 6,535,000	$ 4,040,000
Earnings Per Share (Notes 1 and 11)		
Income before extraordinary item	$ 4.18	$ 2.42
Extraordinary item	.36	.46
Net income	$ 4.54	$ 2.88
Supplemental Earnings Per Share Reflecting Subsequent 3-for-2 Stock Split (Note 11):		
Income before extraordinary item	$ 2.79	$ 1.61
Extraordinary item	.24	.31
Net income	$ 3.03	$ 1.92

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

Assets	June 30 1979	1978
Current Assets:		
Cash, including short-term deposits	$ 2,552,000	$ 981,000
Accounts receivable, net of $737,000 and $547,000, respectively	15,317,000	5,627,000
Inventories (Note 1)	22,985,000	20,857,000
Prepaid expenses	512,000	322,000
Total current assets	41,366,000	27,787,000
Property and Equipment, at Cost (Notes 1, 2 and 5)	19,334,000	13,004,000
Less-Accumulated depreciation and amortization	5,027,000	3,071,000
	14,307,000	9,933,000
Other Assets:		
Lease deposits and other assets	619,000	217,000
Cost in excess of fair value of net assets of businesses acquired, net (Notes 1 and 2)	1,209,000	82,000
	1,828,000	299,000
	$57,501,000	$38,019,000

The accompanying notes are an integral part of these statements.

Liabilities and Shareholders' Equity	June 30 1979	 1978
Current Liabilities:		
Short-term debt (Note 4)	$11,651,000	$ 6,991,000
Current portion of long-term debt	2,326,000	718,000
Accounts payable	10,561,000	8,435,000
Accrued liabilities	3,377,000	2,453,000
Income taxes payable (Note 3)	1,598,000	1,781,000
Total current liabilities	29,513,000	20,378,000
Long-Term Debt (Note 5)	5,533,000	5,385,000
Deferred Tax Credits (Note 3)	1,705,000	—
Commitments and Contingencies (Notes 7 and 8)		
Shareholders' Equity (Notes 6 and 11):		
Common stock $1 par value		
Authorized—5,000,000 shares		
Issued and outstanding—1,493,000 and 1,367,000 shares, respectively	1,493,000	1,367,000
Contributed surplus	3,661,000	1,828,000
Retained earnings	15,596,000	9,061,000
Total shareholders' equity	20,750,000	12,256,000
	$57,501,000	$38,019,000

Consolidated Statements of Shareholders' Equity

	Common Stock		Contributed	Retained	
	Shares	Amount	Surplus	Earnings	Total
Balance, June 30, 1977	1,354,000	$1,354,000	$1,800,000	$ 5,021,000	$ 8,175,000
Net income	—	—	—	4,040,000	4,040,000
Exercise of employee stock options (Note 6)	13,000	13,000	28,000	—	41,000
Balance, June 30, 1978	1,367,000	1,367,000	1,828,000	9,061,000	12,256,000
Net income	—	—	—	6,535,000	6,535,000
Exercise of employee stock options (Note 6)	22,000	22,000	54,000	—	76,000
Issuance of shares for acquisition of Micro Display Systems, Inc. (Note 2)	100,000	100,000	1,700,000	—	1,800,000
Issuance of shares under employment agreement (Note 6)	1,000	1,000	28,000	—	29,000
Issuance of shares in payment for services rendered (Note 10)	3,000	3,000	51,000	—	54,000
Balance, June 30, 1979	1,493,000	$1,493,000	$3,661,000	$15,596,000	$20,750,000

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Financial Position

	Year Ended June 30 1979	1978
Working Capital was Provided by:		
Income before extraordinary item	$ 6,020,000	$3,390,000
Items not requiring working capital—		
Depreciation and amortization	2,476,000	1,132,000
Total working capital provided by operations	8,496,000	4,522,000
Extraordinary item	515,000	650,000
Increase long-term debt	4,113,000	2,556,000
Increase in deferred tax credits	1,705,000	—
Net book value of property and equipment retired	1,837,000	360,000
Common stock issued upon exercise of stock options	76,000	41,000
Other common stock issued	83,000	—
Total working capital provided	16,825,000	8,129,000
Working Capital was Applied to:		
Purchase of property and equipment	4,456,000	4,792,000
Acquisition of purchased businesses—		
Property and equipment	4,101,000	857,000
Cost in excess of fair value of net assets	1,257,000	—
Long-term debt	—	(187,000)
Issuance of common stock for acquisition	(1,800,000)	—
Increase in other assets	402,000	7,000
Repayment of long-term debt and transfer to current portion	3,965,000	1,167,000
Total working capital applied	12,381,000	6,636,000
Increase in Working Capital	$ 4,444,000	$1,493,000
Changes in Working Capital Consist of Increases (Decreases) in:		
Current assets—		
Cash and deposits	$ 1,771,000	$ 6,000
Accounts receivable	9,247,000	(3,226,000)
Inventories	(2,147,000)	4,848,000
Prepaid expenses	119,000	(119,000)
Working capital, net, from acquisitions	(3,379,000)	(536,000)
	5,611,000	973,000
Current liabilities—		
Short-term debt	(683,000)	928,000
Current portion of long-term debt	1,608,000	175,000
Accounts payable and accrued liabilities	494,000	(1,735,000)
Income taxes payable	(252,000)	112,000
	1,167,000	(520,000)
Increase in Working Capital	4,444,000	1,493,000
Working Capital, Beginning of Year	7,409,000	5,916,000
Working Capital, End of Year	$11,853,000	$7,409,000

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements
June 30, 1979 and 1978

1. Summary of Accounting Policies

Principles of Consolidation—The consolidated financial statements include the accounts of Commodore International Limited and all subsidiaries. All such subsidiaries were wholly owned as of June 30, 1979, except for Optical Diodes, Inc. (75% owned), Commodore Educational Systems Limited (61%) and Frontier Manufacturing, Inc. (95%). All significant intercompany transactions have been eliminated.

The consolidated financial statements are expressed in United States currency. For foreign operations, monetary assets and liabilities have been translated at year-end rates of exchange and all other assets and liabilities have been translated at historical rates. Income, costs and expenses were translated at average rates prevailing during the year. Gains or losses resulting from translations are included in the consolidated statements of operations. Such gains and losses were not material in 1979 or 1978.

Inventories—Inventories are stated at the lower of cost (first-in, first-out) or market, except that inventories of one subsidiary are stated at the lower of cost (last-in, first-out) or market. The difference between these two methods for this subsidiary is not material. Inventories used in determining cost of sales for the two years ended June 30, 1979, were:

	1979	1978	1977
Finished goods	$ 8,336,000	$ 8,678,000	$ 5,403,000
Raw materials and work-in-process	14,649,000	12,179 000	10,130,000
	$22,985,000	$20,857,000	$15,533,000

Property and Equipment—Major classes of property and equipment are as follows:

Description	1979	1978	Estimated Useful Lives
Land	$ 1,461,000	$ 988,000	
Machinery and equipment	10,393,000	6,704,000	3-10 years
Buildings and improvements	5,385,000	2,826,000	25 years
Furniture and fixtures	492,000	416,000	5-10 years
Tooling	1,206,000	1,374,000	4 years
Leasehold improvements	397,000	696,000	Life of lease
	$19,334,000	$13,004,000	

Depreciation has been provided using primarily the straight-line method over the estimated useful lives of the assets for both financial reporting and income tax purposes.

Amounts capitalized as part of property and equipment, including expenditures for renewals and betterments, are recorded at cost. Maintenance and repairs are expensed as incurred. Cost of property retired or sold is removed from the asset account and accumulated depreciation to date of retirement or sale is eliminated from the reserve account. Any difference is reported in the consolidated statements of operations.

Research and Development Costs and Product Development Costs—The Company expenses all costs of research and development and product development in the year incurred.

Patents, Trademarks and Other Manufacturing Rights—The Company expenses all costs of obtaining patents, trademarks and other manufacturing rights in the year incurred.

Intangible Assets—The cost in excess of fair value of net assets of businesses acquired arose primarily in connection with the acquisition of Micro Display Systems, Inc. (see Note 2) and is being amortized on a straight-line basis over a period of ten years.

Income Taxes—The Company accounts for investment tax credits as a reduction of the provision for income taxes in the year in which the related credit is utilized. Such credits have not been material. The available investment tax credit carryforward as of June 30, 1979, is not significant.

Earnings per Share—Earnings per share is calculated using the weighted average number of shares of common stock and common stock equivalents outstanding during each year. The weighted average number of shares used to compute earnings per share were 1,440,000 and 1,403,000 in 1979 and 1978, respectively (see Note 11). The difference between primary and fully diluted earnings per share is not material.

2. Acquisitions

In February, 1979, the Company acquired all of the outstanding common stock of Micro Display Systems, Inc. (MDSI), a manufacturer of liquid crystal watches for 100,000 shares of the Company's common stock. The Company applied the purchase method of accounting to the acquisition and accordingly has included the operations of MDSI in the accompanying consolidated financial statements since the date of acquisition.

The unaudited consolidated results of operations on a pro-forma basis as though MDSI had been acquired at the beginning of fiscal 1978 is as follows:

	1979	1978
	(In thousands of dollars, except "Earnings per share".)	
Net sales	$78,206	$66,364
Net income	674	3,913
Earnings per share:		
Income before extraordinary item	$ .11	$ 2.17
Extraordinary item	.34	.43
Net Income	$ .45	$ 2.60

In April 1978, the Company acquired approximately 95% of the outstanding common stock of Frontier Manufacturing, Inc. (Frontier), a manufacturer of integrated circuits and watch modules. Frontier had been experiencing severe financial difficulties and filed a proceeding under Chapter XI of the Federal Bankruptcy Act.

The consideration paid for Frontier's shares through June 30, 1979 has amounted to $203,000. The balance of the purchase price will be distributed to the selling shareholders at such time as all disputed claims asserted against Frontier have been resolved and the exact amount to be paid to satisfy general unsecured claims has been ascertained. In no event shall the Company be required to pay more than $300,000.

The underlying fair value of Frontier's assets was greater than the cost at the date of acquisition. Such excess has been allocated to non-current assets in accordance with the purchase method of accounting. The Company has included the operations of Frontier in the accompanying consolidated financial statements for the period since acquisition.

3. Income Taxes

The provision for income taxes differs from the amount computed by applying the U.S. Federal income tax rate to income before income tax as follows:

	1979		1978	
	(Thousands of dollars)			
	Amount	Percent of Income	Amount	Percent of Income
United States statutory rate	$3,769	47%	$2,500	48%
Increases (reductions) in taxes resulting from:				
Net effect of foreign tax rates	(294)	(4)	(696)	(13)
Subsidiaries incorporated in a jurisdiction which does not levy income taxes	(2,067)	(25)	(442)	(9)
Losses not included in consolidated tax return	345	4	467	9
Other, net	247	3	(4)	—
	$2,000	25%	$1,825	35%

At June 30, 1979 the Company's U.S. subsidiaries had net operating loss carryforwards of approximately $8,000,000 available to reduce future taxable income, a portion of which expires in 1983 and the balance in 1986. Utilization of prior year loss carryforwards in the U.S. and certain other countries has been treated as an extraordinary item in the consolidated statements of operations.

The United Kingdom has certain tax legislation which permits companies to deduct, for purposes of determining taxable income, increases in the carrying amount of inventories. For financial reporting purposes, this deduction has been treated as a timing difference and current deferred taxes have been provided. In July, 1979, the U.K. has adopted legislation which would make this deduction permanent, within certain limitations, thereby eliminating the need for current deferred taxes payable provided in prior years. The net amounts provided in prior years ($1,705,000) have been reclassified as Deferred Tax Credits in the accompanying balance sheet. As the requirements under the tax legislation are met, the credits will be deducted from the tax provisions. It is estimated that approximately $700,000 of these credits will be utilized in 1980.

4. Short-Term Debt

	1979	1978
Unsecured		
Notes payable to banks 4.75% to 9.5%	$ 1,449,000	$ 1,583,000
Facilities agreement, prime plus .75%	6,274,000	—
Overdraft facilities, 5.5% to 13%	1,243,000	1,329,000
Notes payable, prime plus .75%	2,685,000	—
Secured		
Overdraft facilities 12.5% to 16%	—	754,000
Advances from financial institutions, prime plus 6.5%	—	1,625,000
10% Notes payable	—	1,700,000
	$11,651,000	$ 6,991,000

The notes payable to banks range from $37,000 to $519,000. The maximum month end borrowings during 1979 under the above described arrangements were $1,586,000 (1978—$1,887,000). The average borrowing outstanding during 1979 was $946,000 (1978—$1,531,000) at a weighted average interest rate of 7.6% (1978—8%).

In September 1978, the Company entered a facilities agreement with a bank. The agreement requires, among other things, the maintenance of a compensating balance of 10% of the line and 10% of the outstanding balance. During the year, the Company paid $30,000 to the Chairman of the Board for his guarantee of a portion of this facility. As of June 30, 1979, the bank no longer requires the guarantee. The highest month end borrowings under this arrangement was $8,399,000. The average borrowing outstanding during 1979 was $4,981,000 and the weighted average interest rate was 12.4%.

The Company has overdraft facilities involving a number of international banks, ranging from $234,000 to $1,009,000. During fiscal 1979, the highest balance owing under this arrangement was $1,407,000 (1978—$2,083,000). The average balance owing was $942,000 (1978—$1,041,000) and the weighted average interest rate was 8.4% (1978—10.75%).

In March 1979, the Company acquired debt of $2,685,000 payable in one year with a weighted average interest rate in 1979 of 12.5%.

5. Long Term Debt

	1979	1978
10% note payable, due January 1980, collateralized by certain machinery and equipment (Note 10)	$ 1,600,000	$ 1,600,000
Prime plus .50% note payable, unsecured, due June, 1981	2,000,000	—
Real estate mortgages, 8.5% to 9.5%, due in varying amounts through 2005	1,413,000	2,088,000
Capitalized equipment lease obligations averaging 9%, payable in varying amounts through 1986	2,846,000	1,940,000
15.25% notes payable	—	475,000
	7,859,000	6,103,000
Less current maturities	2,326,000	718,000
	$ 5,533,000	$ 5,385,000

Approximate annual maturities of long term debt for the five fiscal years after June 30, 1979, are as follows:

1980	$2,326,000
1981	2,594,000
1982	613,000
1983	306,000
1984	277,000

6. Stock Option Plan

The Company has in effect an Employee Stock Option Plan instituted in 1974, which was designed to qualify under Section 422 of the U.S. Internal Revenue Code, as amended. The plan permits certain officers and key employees to purchase up to 150,000 shares of the Company's common stock. Qualified options are granted at market value, expire in five years, and are exercisable in cumulative annual increments of 33%, nine months after the date of grant.

A summary of transactions relating to outstanding options during 1979 and 1978 is shown below:

	Number of Shares	Average Price Per Share	Total
Outstanding at June 30, 1977	48,333	$ 3.39	$164,000
Granted	25,000	6.96	174,000
Exercised	(13,139)	3.12	(41,000)
Cancelled	(13,333)	8.33	(111,000)
Outstanding at June 30, 1978	46,861	3.97	186,000
Granted	31,950	19.62	627,000
Exercised	(22,175)	3.43	(76,000)
Cancelled	(14,500)	11.79	(171,000)
Outstanding at June 30, 1979	42,136	$13.43	$566,000

There were 12,935 shares exercisable under the Company's terms of the plan at June 30, 1979. The proceeds from the exercise of stock options are credited to common stock and contributed surplus accounts.

During 1979, the Board of Directors granted 23,000 fully-paid shares to three employees in accordance with employment agreements. The terms of the agreements require the Company to issue 20% of the shares at the end of each year of active employment from the grant date. The Company expenses as compensation the fair market value of such shares at the date of issuance.

7. Commitments and Contingencies

Operating Leases

The Company and its subsidiaries occupy certain manufacturing and sales offices under lease agreements expiring at certain dates to 2001. Annual rental expenses under these leases were $1,039,000 in 1979 and $474,000 in 1978. Aggregate minimum rental commitments remaining under these contracts as of June 30, 1979 are as follows:

	Lease Commitments		
Year Ended June 30	Buildings	Machinery & Equipment	Total
1980	$ 905,000	$42,000	$ 947,000
1981	791,000	28,000	819,000
1982	614,000	13,000	627,000
1983	371,000	11,000	382,000
1984	248,000	10,000	258,000
Later years	1,253,000	32,000	1,285,000

Capital Leases

In addition to the above mentioned operating leases, the Company leases certain machinery and equipment under long-term leases which are treated as capital leases. The future minimum lease payments under capital leases less amounts representing interest as of June 30, 1979 are as follows:

Year ended June 30	
1980	$ 745,000
1981	741,000
1982	728,000
1983	472,000
1984	327,000
Later years	452,000
Total minimum lease payments	3,465,000
Less: Amount representing interest	619,000
Capitalized lease obligations	$2,846,000

8. Litigation

A number of legal actions have been brought against the Company and/or its subsidiaries, primarily by certain suppliers. The actions brought by the suppliers generally allege breach of contract relating to component parts for assembly of calculators which the Company has found to be defective or not suitable, and have either returned them to the supplier or withheld payment, or both.

Based upon the opinions of counsel, management believes that the ultimate settlement of all currently pending legal actions will not have a material effect upon the Company's financial position or results of operations.

9. Product Group Information

(Unaudited—in thousands of dollars)

	Product Segments					
	Computer Systems	Consumer Products	Electronic Components	Office Equipment	Elimi-nations	Consoli-dated
1979						
Sales to unaffiliated customers	$34,416	$15,908	$ 9,990	$10,810	$ —	$71,124
Intersegment sales	—	—	7,765	702	(8,467)	—
Net sales	$34,416	$15,908	$17,755	$11,512	$(8,467)	$71,124
Income from operations	$ 6,577	$ 1,619	$ 1,317	$ 824	$ (225)	$10,112
Interest expense net						(2,092)
Income before income taxes and extraordinary item						$ 8,020
Identifiable assets	$21,783	$19,025	$15,057	$ 4,555	$(2,919)	$57,501
Depreciation expense	$ 278	$ 504	$ 1,375	$ 189	$ —	$ 2,346
Capital expenditures	$ 704	$ 4,621	$ 2,746	$ 486	$ —	$ 8,557
1978						
Sales to unaffiliated customers	$12,202	$19,365	$ 9,749	$ 8,835	$ —	$50,151
Intersegment sales	—	—	5,045	—	(5,045)	—
Net sales	$12,202	$19,365	$14,794	$ 8,835	$(5,045)	$50,151
Income from operations	$ 2,768	$ 1,176	$ 1,595	$ 821	$ (27)	$ 6,333
Interest expense, net						(1,118)
Income before income taxes and extraordinary item						$ 5,215
Identifiable assets	$10,418	$16,126	$11,290	$ 3,616	$(3,431)	$38,019
Depreciation expense	$ 165	$ 416	$ 353	$ 146	$ —	$ 1,080
Capital expenditures	$ 717	$ 555	$ 4,290	$ 87	$ —	$ 5,649

	Geographic Segments					
	North America	Europe	Asia	Corpo-rate	Elimi-nations	Consoli-dated
1979						
Sales to unaffiliated customers	$39,037	$21,442	$10,645	$ —	$ —	$71,124
Intersegment sales	19,962	2,760	11,363	—	(34,085)	—
Net sales	$58,999	$24,202	$22,008	$ —	$(34,085)	$71,124
Income from operations	$ 6,994	$ 1,866	$ 1,477	$ —	$ (225)	$10,112
Interest expense, net						(2,092)
Income before income taxes and extraordinary item						$ 8,020
Identifiable assets	$40,936	$10,616	$ 8,868	$ 7,096	$(10,015)	$57,501
Depreciation expense	$ 2,081	$ 75	$ 190	$ —	$ —	$ 2,346
Capital expenditures	$ 7,372	$ 690	$ 495	$ —	$ —	$ 8,557
1978						
Sales to unaffiliated customers	$34,590	$12,710	$ 2,851	$ —	$ —	$50,151
Intersegment sales	8,526	3,139	12,264	—	(23,929)	—
Net sales	$43,116	$15,849	$15,115	$ —	$(23,929)	$50,151
Income from operations	$ 3,821	$ 690	$ 1,849	$ —	$ (27)	$ 6,333
Interest expense, net						(1,118)
Income before income taxes and extraordinary item						$ 5,215
Identifiable assets	$26,390	$ 6,878	$ 7,611	$ 5,396	$(8,256)	$38,019
Depreciation expense	$ 739	$ 119	$ 222	$ —	$ —	$ 1,080
Capital expenditures	$ 5,258	$ 48	$ 343	$ —	$ —	$ 5,649

10. Operations—Related Parties

During 1979 and 1978, the Company had sales to companies which were owned or effectively controlled by the Chairman of the Board. These sales and the related receivables are not material to the Company's financial statements.

During 1979, the Board of Directors, authorized the issuance of 3,000 shares to a director as payment for legal services rendered to the Company.

In 1978, the Company's Board of Directors approved the acquisition of Mr. Calculator, Inc., a company previously owned by companies effectively controlled by the Chairman of the Board. The purchase price of Mr. Calculator was $2,000, a return of the original investment of the selling shareholders.

In 1978, $1,600,000 of the Company's long-term debt (see Note 5) was jointly acquired by companies owned by the Chairman of the Board and relatives of an officer and director. The debt was purchased by the aforementioned parties for $1,200,000.

11. Subsequent Events

On July 20, 1979, the Board of Directors announced a three-for-two common stock split. The additional shares are to be issued on or about September 7, 1979, to shareholders of record on August 30, 1979.

In August, 1979, the Company arranged for three facilities agreements whereby the Company is entitled to obtain unsecured loans and open letters of credit up to an aggregate amount of $7,000,000. The first agreement provides for a revolving $3,000,000 line, with a maximum validity of 18 months and a minimum validity of 12 months, at prime plus 1½%. In addition, a facility fee of ½% will be charged on the daily unused portion of the line.

The second agreement provides for a $2,000,000 revolving line, payable in one year and bearing interest at prime plus ¾%. This agreement requires, among other things, the maintenance of minimum consolidated working capital of $7,500,000, current ratio of 1.3 to 1, debt to net worth ratio of 2.15 to 1, and a minimum consolidated net worth of $16,000,000.

The third agreement provides for a $2,000,000 line, payable for periods up to 90 days and bearing interest at 110% of the bank's prime rate. Stand-by letters of credit, on which there is a sublimit of $500,000, will be charged a ½% opening fee on a per annum basis.

Auditors' Report

To the Shareholders of **Commodore International Limited**:

We have examined the consolidated balance sheets of **Commodore International Limited** (a Bahamian Corporation) and subsidiaries as of June 30, 1979 and 1978, and the related consolidated statements of operations, shareholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of **Commodore International Limited** and subsidiaries as of June 30, 1979 and 1978, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

Philadelphia, PA
August 15, 1979

*Common Stock Information**

The high and low quarterly common stock prices on the American Stock Exchange for the past two fiscal years are as follows:

	Fiscal 1979 High–Low	Fiscal 1978 High–Low
First Quarter	22¾–16⅝	12⅛– 7⅝
Second Quarter	20⅜– 9⅝	11⅝– 8¼
Third Quarter	17⅝–10⅝	13⅜– 9⅛
Fourth Quarter	23⅜–16	18⅞–11½

*All common stock prices have been adjusted to reflect 3-for-2 stock split issued on September 7, 1979 to shareholders of record on August 30, 1979.

Board of Directors

Irving Gould
Chairman of the Board
Coral Harbour, N.P., Bahamas

Jack Tramiel
President
Saratoga, California

Burton Winberg
President,
Rockport Holding, Limited
Toronto, Ontario

Gerald Shefsky
President, Greater York Group
Toronto, Ontario

Leonard I. Schreiber
Attorney-at-Law
Westport, Connecticut

Officers

Irving Gould
Chairman of the Board

Jack Tramiel
President

Richard D. Sanford
Vice-President, Finance
and Secretary
West Chester, Pennsylvania

Christopher T. G. Fish
Vice-President,
Nassau, Bahamas

E. C. Frye, Jr.
Vice-President
Dallas, Texas

David Alderson
Vice-President
Hong Kong

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Valley Forge Corporate Center
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Norristown, Pennsylvania 19401

Micro Display Systems, Inc.
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Frontier Manufacturing, Inc.
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Newport Beach, California 92663

Commodore Business Machines, Limited
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Commodore Electronics (Hong Kong) Limited
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Hong Kong, Hong Kong

Transfer Agents and Registrars

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Toronto, Ontario

The Canadian Bank of Commerce Trust Company
New York, New York

Trust Corporation of Bahamas Limited
Nassau, Bahamas

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Philadelphia, Pennsylvania

Counsel

Seligman, Maynard & Co.
Nassau, Bahamas

Baker & McKenzie
New York, New York

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Westport, Connecticut

Shares Listed

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